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SENSITIVE
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TREASURY FOR SECRETARY GEITHNER
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SUBJECT: AMBASSADOR'S MESSAGE TO COMMERCE SECRETARY LOCKE ON THE
ECONOMIC CRISIS AND OUR ECONOMIC AGENDA WITH VIETNAM

REF: A) 07 Hanoi 1729 (Vietnam's Inflationary Conundrum");
B) 08 Hanoi 530 ("Anti-Deficit and Inflation Measures");
C) 08 Hanoi 377 ("PM Declares War on Inflation");
D) Hanoi 205 ("Sink-Or-Swim Time for Leading Exporters");
E) HCMC 125 ("Investment to Slow");
F) Hanoi 241 ("Financial Crisis Causing Increased Unemployment");
G) Hanoi 138 (GVN Rolls Out Stimulus Package");
H) 08 Hanoi 871 ("Vietnam Not Rushing Trade Deals");
I) 08 Hanoi 1072 ("TIFA Agenda");
J) 08 Hanoi 1329 ("Private Sector Tells Vietnam");
K) Hanoi 50 ("Bilateral Assistance: Our Window Of Opportunity");
L) 08 Hanoi 1265 ("Distribution Sector Readies For Foreigners");
M) J) Hanoi 137 ("A Half-Hearted Deficit-Busting Scheme");
N) 08 Hanoi 1401 ("Senator Baucus Urges Vietnam");
O) 08 Hanoi 1382 ("Vietnam GSP and Labor Reform");
P) 08 Hanoi 1403 ("Progress Toward Market Economy Status")

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11. (SBU) INTRODUCTION FOR SECRETARY GEITHNER: I strongly believe that we have an unprecedented window of opportunity today to influence the outcome of Vietnam's fast transformation through our economic engagement. Few will dispute that our work here over the last 20 years has had a profound effect in Vietnam, and mostly for the better. Politically and socially, Vietnam lags behind, but I am convinced that change is inevitable. The engine behind it is, for the most part, economic. Vietnam aspires to improve its business climate and economic competitiveness, and it is our role to continue to link these goals with better governance, labor freedoms, public accountability and the rule of law. In order to shape that change, we need to stay engaged. This is not the time to step back, but to push even further. The global economic slowdown will present us with as many opportunities as challenges to further our strategic goals in Vietnam: to ensure that a prosperous and better governed society and a better partner for the United States emerges from this process.

12. (SBU) I encourage you to consider including a visit to Vietnam in your schedule. Your presence here will advance our ability to influence the pace and outcome of Vietnam's transformation at this critical time. We have asked Secretary Clinton, and your counterparts at USTR, Labor, Agriculture and Commerce to visit as well. Mission Vietnam and I sincerely welcome and encourage your visit, and hope to see you here over the course of this year. END INTRODUCTION.

SUMMARY: OPPORTUNITIES AND CHALLENGES IN 2009

13. (SBU) SUMMARY. The global economic crisis hit Vietnam as it was emerging from serious inflation and balance of payments problems largely generated by excessive credit and money supply growth. Given its dependence on foreign trade and investment, the worldwide downturn compelled the GVN to reverse tight monetary and fiscal policies, dramatically lower interest rates, and adopt fiscal measures to stimulate growth. This message contains post's views on the GVN's trade and investment policy reaction to the global economic downturn, and how the USG should respond.

14. (SBU) Vietnam has continued to maintain a commendable record on opening its market and undertaking other economic-related reforms -- two trends that we want to encourage. At the same time, potential challenges lie ahead, including a range of important bilateral issues in coming months. Maintaining and improving access to the U.S. market remains a top priority of the GVN. Chief among these goals is eligibility for the GSP program, expanding regulatory approval for Vietnamese fruits, and avoiding trade friction over catfish. Labor reform is essential to maintaining Vietnam's competitiveness and deepening trade relations with the U.S.; Vietnam seems committed to address its shortcomings and welcomes our assistance in this area. Instruments like the TIFA and other ongoing negotiations will be key in moving forward U.S.-Vietnam economic relations during the challenging times ahead. END SUMMARY

VIETNAM HAD A HEAD START IN ECONOMIC HEADACHES

15. (SBU) Vietnam had economic problems of its own making that predated the global crisis: double-digit inflation, a record trade deficit, serious downward pressure on the Vietnamese dong, and slumping real estate and stock markets (REFS A, B). By April 2008,

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with prices rising 19% YOY, the Government of Vietnam (GVN) made inflation-reduction its foremost priority (REF B). A series of tightening measures ensued, including interest rate hikes, increased bank supervision, and cuts in government investment spending (REF C).

16. (SBU) These measures were beginning to have an impact on stabilizing the situation when the global economic situation started to unravel. Exports, which had been rising strongly until mid-year (and still closed 2008 with an almost 30% increase from 2007), began to sag (REF D). Foreign investment, which had registered record levels in 2008, slowed, a trend the GVN expects to continue in 2009 (REF E). GDP growth of 6.2% in 2008 was the lowest since 2000, and is expected to be even lower in 2009, with most projections in the 5% or lower range. The GVN predicts that if current trends continue, up to a tenth of the workforce could be left unemployed (REF F). "Preventing further economic slowdown" is now the GVN's number one policy priority, Deputy Prime Minister Nguyen Sinh Hung underscored in March 17 remarks at an Economist Intelligence Unit roundtable with foreign investors.

KEEPING A COOL HEAD, MINDING STABILITY

17. (SBU) The GVN is keenly aware that the current situation could disrupt the stability and consensus engendered by economic prosperity. Its much-lauded poverty reduction program will be tested (Septel). The GVN has responded aggressively to worsening economic conditions by reducing policy interest rates, starting last October, from a high of 14.5% to 7%, which cut the maximum lending rate from 22% to 10.5%. It has loosened other elements of monetary policy and has implemented a stimulus package which combines interest rates for commercial loans at four percentage points below the market rate, corporate and personal income tax cuts or deferrals, and one-time payments to poor families (REF G). Some investment spending on infrastructure projects may also be moved up to help create jobs. The ultimate effect of the economic crisis on Vietnam is still uncertain and will depend on the depth and length of the global downturn.

VIETNAM STAYS THE COURSE IN TRADE POLICY

¶18. (SBU) Despite its burgeoning trade deficit in 2008 and in the face of the current economic downturn, Vietnam for the most part has stuck to its free-market stance. Post expects this to continue in ¶2009. Vietnam finished free trade deals in the second half of 2008 with Japan, and with Australia and New Zealand at the ASEAN Summit in Thailand in February 2009 (REF H). Some important export industries, such as textile and electronics, point to expanded market access under these agreements as one of the few bright spots of 2009. The EU is seriously thinking about breaking off its EU-ASEAN FTA and starting bilateral FTA talks with Vietnam.

¶19. (SBU) Vietnam is also pursuing an equally ambitious agenda with the United States. The two sides held the first round of Bilateral Investment Treaty negotiations in December 2008 and are readying the next round this spring. On February 3, Vietnam announced that it was joining the Trans Pacific Partnership negotiations with Australia, New Zealand, Singapore, Peru, Chile, Brunei, Singapore and the United States. Vietnam also continued its comprehensive engagement in 2008 on a range of trade issues under the Trade and Investment Framework Agreement (TIFA) meetings with the United States (REF I), and will be sending a team to Washington in April 2009 for broad expert-level TIFA discussions.

FOCUS ON COMPETITIVENESS AND TRANSPARENCY -----

¶10. (SBU) U.S. investors and businesses in Vietnam have urged the GVN to focus on becoming more competitive during the economic downturn, with particular emphasis on improving the business climate and addressing obstacles to greater investment (REF J). Mission Vietnam has pressed the same message, stressing administrative reforms and the need for increased transparency. Post has also urged Vietnam to move ahead with education reform, which has become a serious drag on economic development.

¶11. (SBU) Vietnam's response has been encouraging. The GVN has embraced education reform and is seeking increased investment in this sector. A bilateral Education Task Force is finalizing and will soon submit recommendations to senior leaders on both sides for improvements in Vietnam's system of higher education. The GVN is

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also discussing with Post a new approach to improve and reform governance, and we expect some of these changes to roll out in 2009 (REF K).

¶12. (SBU) The GVN puts a high premium on its ability to deliver on the commitments it makes. Post believes the GVN's determination to remain engaged in multilateral and bilateral economic negotiations, to maintain the pace of reforms and openly discuss how to improve its business climate and competitiveness despite the difficult times, are strong indicators of the GVN's commitments to open markets and greater trade and investment liberalization.

POTENTIAL HURDLES AHEAD FOR 2009 -----

¶13. (SBU) Vietnam's resolve to uphold these commitments will be tested in 2009. Facing an unprecedented level of FDI and foreign competition in 2008, local businesses in certain sectors tried in vain to slow down the opening of Vietnam's markets to foreign penetration (REF L). A historic high trade deficit in 2008 also put pressure on the GVN to stem the flow of imports (REF M). The GVN for the large part resisted this pressure, keeping its markets open and a positive competition policy, and continuing to implement its commitments. Domestic pressure to slow down foreign encroachment into hitherto protected areas is unlikely to go away, especially as the economic situation puts pressure on local businesses. Moreover, Vietnam's resistance to domestic protectionism may weaken if it finds barriers to its exports being erected overseas.

CATFISH AND PANGASIUS -----

¶14. (SBU) Vietnamese seafood exporters, the GVN, and U.S. importers

of Vietnamese seafood have raised concerns with post and Washington about the fate of trade in pangasius (tra and basa) fish (REF N). The 2008 Farm Bill shifted regulatory jurisdiction over "catfish" to USDA but left open the definition of catfish. A previous Farm Bill mandated that Vietnamese pangasius fish could not be called catfish in the United States, which has created ambiguity as to what species of fish the 2008 Farm Bill will eventually cover. The Vietnamese industry is in limbo pending resolution by USDA of the catfish definition. Foreign sales of these fish were a bright spot for Vietnam in 2008, with both export value and volume up worldwide, and exports to the United States totaling \$70 million. In turn, Vietnamese seafood exporters are large consumers of U.S. feed (exports of U.S. grains and feed to Vietnam commonly used in the seafood industry reached \$192.6 million in 2008, a 44% increase from 2007).

LABOR REFORMS AND INTERNATIONAL STANDARDS

¶15. (SBU) Vietnam is now undertaking a major effort to reform its labor laws, a result in part of our discussions regarding Vietnam's application for the Generalized System of Preferences (GSP) (REF O). The ongoing Labor Code reform is a continuation of a process that began earlier this decade, supported by our bilateral Labor Dialogue and technical assistance from the Department of Labor. It is significant to note that the GVN is now discussing with us for the first time revisions planned for the Trade Union Law. Labor will also figure prominently at the next TIFA, in TPP negotiations and in the U.S.-Vietnam Market Economy Status discussions (REF P). Moreover, Vietnam understands that it needs to move forward with labor reforms in order to advance its immediate GSP objectives and longer-term plans to intensify its trade relationship with the United States. The USG should continue to engage with the GVN on the full range of important labor issues, including providing technical assistance, to ensure that Vietnam maintains its progress toward internationally recognized worker rights standards.

BILATERAL AGRICULTURE TRADE

¶16. (SBU) U.S. agricultural exports to Vietnam were a bright spot in 2008, increasing by triple digits in at least 32 categories of commodities and exceeding one billion dollars for the first time. In 2009, both the United States and Vietnam will continue to press for greater access for each other's agricultural exports. At the present time, one of the most important issues for the United States is improving access for beef. Currently, Vietnam accepts all cuts of beef from cattle under 30 months of age. The United States has pushed Vietnam to permit importation of beef from cattle of all ages. Despite promises to make a decision on this issue by the end

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of 2008, the GVN has yet to implement the change and the Mission will continue to press hard at all levels of the GVN. The planned April visit to Washington by Vietnam's Agriculture Minister also presents another ideal opportunity to lobby for greater access.

¶17. (SBU) While the GVN wants additional access for its tropical fruits, less-than-expected demand for Vietnamese dragon fruit, which gained access to the United States in mid-2008, may dent Vietnam's sense of urgency on this issue. Nevertheless, the GVN has a long list of fruits on its request list for USDA/APHIS approval. The incentive of increased access to the U.S. market for these fruits serves to strengthen our ongoing cooperation on a range of agriculture issues.

COMMENT: KEEPING VIETNAM ENGAGED IS THE BEST MEDICINE

¶18. (SBU) Like the rest of Asia, Vietnam ushered in 2009 with an economic downturn that has affected two of its engines of growth: exports and investment. Vietnam has been a reliable trading partner, a good investment host and an enthusiastic free marketer. There is no reason why this should not continue. The best way to maintain this positive trend is to keep Vietnam focused on its ongoing process of economic reform and integration. Mission

Vietnam's highly-successful Support for Trade Acceleration (STAR) and Vietnam Competitiveness Initiative (VNCI) programs will help us deepen engagement on trade and investment. More important will be maintaining and encouraging high-level engagement, such as the April visit to Washington of Vietnam's Agriculture Minister, ministerial TIFA meetings, and visits to Vietnam by the Secretary, USTR, Commerce, Agriculture, Labor, Treasury and other economic-minded USG principals.

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